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Lao PDR Market Access Guide: Trading with ASEAN Dialogue Partners – People's Republic of China

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**Lao PDR Market Access Guide:
Trading with ASEAN Dialogue Partners**

PEOPLE'S REPUBLIC OF CHINA

**Prepared by
Montague Lord**

March 2013

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Summary

China is the second most important export destination of Laos, and export growth to that market has far outpaced exports to Thailand, the leading export destination. One of the major drivers of this growth is the comprehensive *ASEAN-China Free Trade Agreement (ACFTA)* under which Lao benefits in trade of goods and services and in investment measures.

How Lao Producers and Exporters Benefit from ACFTA

- ACFTA's Trade in Goods Agreement has already eliminated tariffs on 90% of its products imported by China. Tariffs on the remaining 10% of imports, classified as sensitive products, are being reduced at a slower pace.
- Without preferential market access, other foreign suppliers to China are subject to an average tariff of over 8%. This high level of protection gives Lao businesses a large competitive advantage over competitors who are not ACFTA members.
- For agricultural products, China's average tariff is 65% for non-ACFTA member countries. Lao businesses therefore have a huge competitive advantage in agricultural exports over countries that are not part of the Agreement.
- Laos' proximity to China makes it easier to transport goods to that country than from other ACFTA member countries, especially with the planned development of transport infrastructure between the two countries. Moreover, China's logistics environment is relatively favorable to trading.
- China is one of the fastest growing markets in Asia. Two-way trade between China and ASEAN increased by nearly 30% in 2011 and is targeted to expand by another 20% by 2015. In the case of the Lao PDR, the trade expansion has been much higher. In the last five years, Lao exports to China have grown by an average of 80% a year and that rapid expansion is expected to continue in the coming years.

What are the Fast-Growing Chinese Product Markets for Lao Businesses

Most of Lao PDR's largest exports to China have grown rapidly, especially copper ore and wood products. Others have become increasingly important and there are numerous emerging exports with rapidly growing Chinese imports. Among the most notables are in the following categories:



These products are those in which China has high import growth rates. In some cases, Laos also has high export growth rates of the same products; but in some cases it has 'missed

opportunities' to benefit from the high growth markets. Overall, Lao PDR's large exports are highly compatible with the types of products imported by China. The index of compatibility is similar to that reflecting large intra-industry trade between more developed economies. In the case of medium-size exports, the index of compatibility is somewhat higher than that of other developing countries.

How the ACFTA Works

The ACFTA has a separate list for products on the normal and sensitive tracks. The Most Favored Nation (MFN) tariffs for products on the normal track are being progressively eliminated by 2015 on about 90% of all products. For the remaining products, tariffs are being eliminated based on a schedule for products on a so-called Sensitive List and another one called the Highly Sensitive List covering rice, sugar, plant oils, among others.

This guide shows how to determine (a) whether there are benefits to using ACFTA, and (b) whether a particular product being exported from Laos is eligible for a preferential rate. It is important to check these two conditions to avoid spending time and money in applying for the preferential rate if a product is already subject to a low customs duty outside ACFTA.

Understanding Rules of Origin

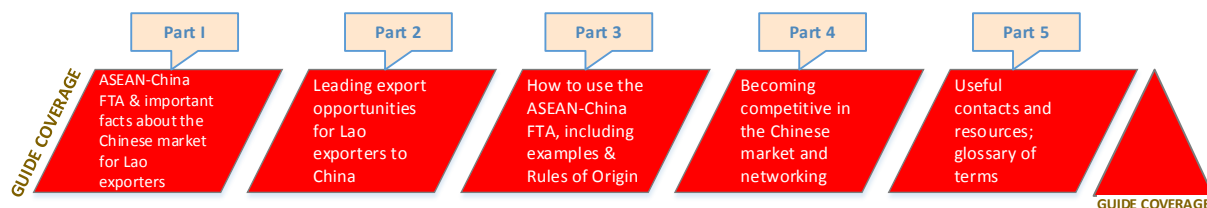
The Rules of Origin (ROO) are an essential feature of the ACFTA. They determine what goods qualify for preferential tariff treatment, that is, what goods count as "Lao" products. There are three ways to qualify:

- A good can be wholly originating from Laos, for example, goods obtained from farming; and
- A good must have at least 40% of content originating from Laos, including that occurring after a change in tariff classification from materials originating in non-ACFTA countries. The rule also applies to goods produced jointly between Laos and other ACFTA countries.

Ways to Compete in Chinese Product Markets

- ✓ *Become informed:* The Chinese leaders are committed to strengthening trade ties with the ASEAN countries in general and Laos in particular. This guide provides information about resources and contacts that can help you to become familiar with the requirements and opportunities of ACFTA.
- ✓ *Develop networks:* This guide emphasizes the importance of cultivating business relationships that help you to establish networks of mutually beneficial cost-sharing activities, which can help lead to contractual arrangements with Chinese companies.
- ✓ *SME Value Chains:* This guide offers advice on how small and medium size enterprises (SMEs) can effectively compete through value chains, as well as meet international standards like those of Export Quality Infrastructure (EQI) required by China.

How This Guide is Organized



PART 1: Guide to Understanding Lao's Exports to China

3.1. Facts about China's Importance as an Export Market

3.1.1. Lao's Trade Relations with China

Opportunities – China is the second most important geographic destination for Lao exports. Although the absolute value of exports is about three-fourths that of exports to Thailand, Lao exports to China have grown at twice the rate as exports to Thailand in the last ten years. On average, Lao exports to China have expanded by 86% a year since 2005, with year-to-year growth rates ranging from a low of 38% to 174% during that period. That rate of expansion means that the value of exports today are over 30 times what it was in 2005, compared with only a 4-fold increase in the Lao PDR's overall value of exports to all other destinations in the same period.

How Lao Benefits from the ASEAN-China FTA – As a member of ASEAN, Laos benefits from the comprehensive Free Trade Agreement (FTA) between ASEAN and China that was signed in November 2002. The ASEAN-China FTA offers benefits in trade of goods and services and in investments through the following agreements:

- The *Trade in Goods Agreement* (signed in July 2005) eliminated in 2010 all of China's tariffs on products classified under the Normal Track, which covers 90% of all Chinese imports. The remaining 10% are classified as sensitive products and their tariffs will be reduced at a slower pace. For Laos and other CLMV countries, the Agreement allows for a more gradual elimination of tariffs until 2015; for the sensitive products, Laos will significantly reduce tariffs by 2018.¹
- The *Trade in Services Agreement* (signed in July 2007) facilitates communications and shipping between China and Laos.
- The *Investment Agreement* (signed in January 2010) protects Lao and other ASEAN investors from discriminatory measures and guarantees equal treatment as those received by national investors.

3.1.2. Lao's Preferential Access to China's Markets

Gradual Elimination of Tariffs – The Agreement on Trade in Goods under the ASEAN-China FTA has two separate tracks: one for the Normal Track covering about 90% of all goods; the other for the Sensitive Track covering a limited number of products.

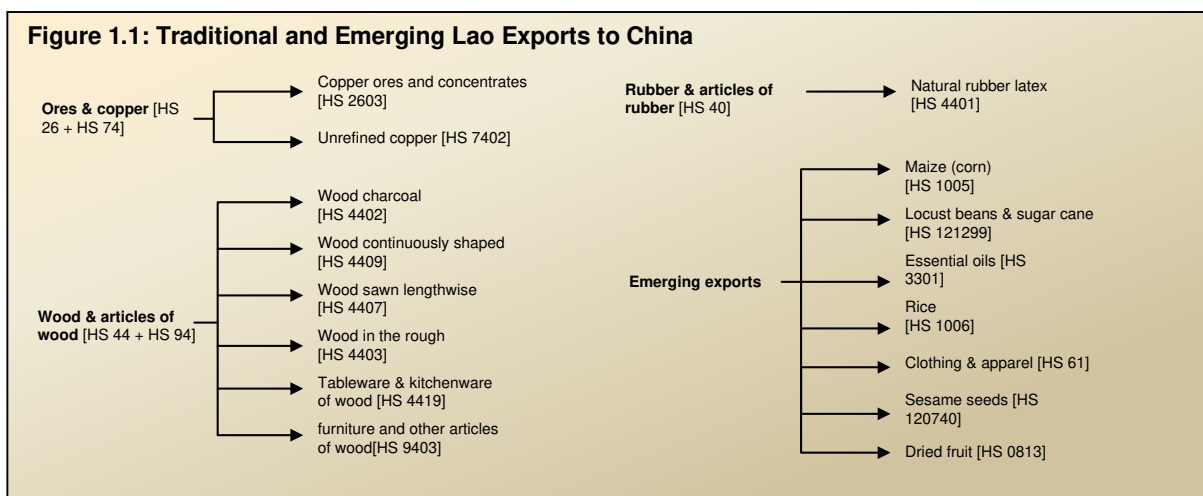
Normal and Sensitive Tracks for Chinese Import from Laos – The Lao PDR has a separate list for both the normal and sensitive track products. Tariffs for products on the Normal Track list are being progressively eliminated by 2015 on about 90% of all products. For the Sensitive Track list, which is limited to no more than 250 tariff lines, the applied Most Favored Nation (MFN) tariff rates are being eliminated based on a schedule for products on a so-called Sensitive List and another one called the Highly Sensitive List (covering mainly rice, sugar, plant oils, among others).

Elimination of Non-Tariff Barriers – The elimination of non-tariff barriers to trade on most products exported by Laos means that businesses can ship products to China without being subject to restrictions from import quotas and administrative methods like import licensing requirements. It also removes customs surcharges and variable import levies and supplementary import duties, lengthy customs procedures, and unreasonable standards.

3.2. Lao's Exports to China

2.2.1. Traditional and Emerging Exports

Largest Exports to China – Lao's major exports to China are mainly composed of refined copper and copper ores, wood and articles from wood, and natural rubber. The predominant export category is made up of copper ores and concentrates, which represents two-thirds of the total value of all Lao exports to China. Among the largest emerging exports are maize, sugarcane, essential oils, rice clothing and apparel, sesame seeds and dried fruit.



Fastest Growing Exports – Most of the largest exports have grown rapidly, especially those of copper ore and wood and wood products. Essential oils, starches, beer, gums and resins, coffee and cereals have become increasingly important exports to China, and are expected to grow in importance. Other emerging exports in the Chinese market are fruits and vegetables, oil seeds, salt, furniture, tea and furniture.

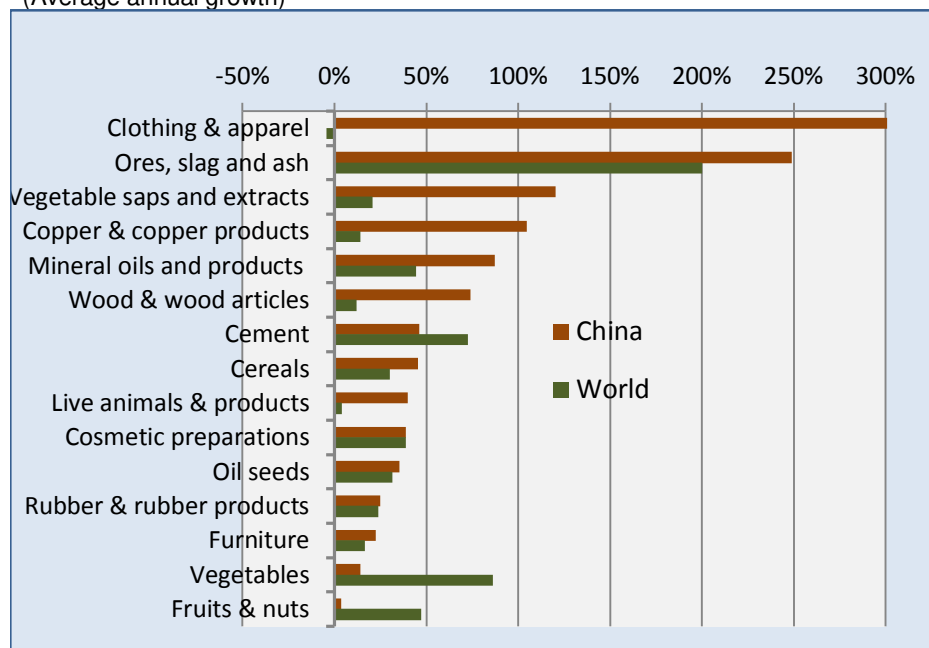
2.2.2. How Exports to China Differs from Other Markets

Lao products with dynamic export growth to the Chinese market have important differences from those exported to other markets. Lao's exports to China of textile and apparel, refined copper and copper ore, vegetable saps and extracts, and mineral oils have all grown much faster than exports to other destinations. In contrast, exports to China of fruits and vegetables, nuts and cement have underperformed compared with exports to other destinations (Figure 1.2)

The reason for these differences is that China's demand for imports in general and that for specific products exported by Laos differs from demand patterns in other markets. For that reason, it is important to understand the Chinese market and how it differs from other markets. Among the major factors determining those differences are the following:

- ✓ The drivers of trade for China and its demand for Lao products.
- ✓ Lao's export compatibility with Koran imports, that is, whether Laos is exporting the types of goods that are most in demand by China.
- ✓ Whether Laos is focusing its exports on the types of products that have dynamic markets in China.

Figure 1.2: Lao Exports to China versus Other Markets in Last Five Years
(Average annual growth)



2.2.3. Key Drivers for Lao Exports

There are two sets of factors that are important for Lao exporters to consider in the Chinese market:

Factors Related to the Chinese Market

In considering the Chinese market as a possible market destination, Lao producers and exporters should examine *growth prospects* and *market access requirements*.

- (1) Growth prospects for the Chinese market are mainly driven by sectoral growth patterns in that country and by the import demand responsiveness to economic activity in China.

➡ For more information, see Chapter 2 below.

- (2) Market access requirements under the ASEAN-China FTA provide important advantages to the Lao PDR over other non-ASEAN foreign suppliers, and the advantages will improve as tariffs are increasingly eliminated for Laos through 2020.

➡ For more information, see Chapter 3.

Factors Related to Lao's Competitiveness and Internal Factors

The ability of Lao producers to effectively compete for market shares of China is determined by the following:

- (1) The compatibility of Lao exports with Chinese imports.

➡ For more information, see Section 2.1.

- (2) The strength of institutional support mechanisms to help producers compete in the market.

➡ *For more information, see Section 4.1.*

- (3) The export quality infrastructure (EQI) opportunities for adding value to exports, that is, for moving Laos from a concentration on unprocessed primary commodity exports, to agro-industrial and manufacturing activities in increasingly sophisticated product exports.

➡ *For more information, see Section 4.2.*

- (4) The ability of Lao businesses to accommodate Asian business styles into their networking operations. The approach emphasizes the cultivation of business relationships in the context of Asian interests in building professional trust and mutually beneficial cost-sharing activities leading to common goals. In contrast, the Western approach to doing business is largely based on competitive tendering and cost-minimizing negotiation strategies. For Lao businesses, it is therefore important to build networks that create buyers' trust and interest in establishing mutually-beneficial, long-term contractual arrangements with Chinese companies.

➡ *For contact information and links to resources, see Section 5.1.*

PART 2: Guide to Emerging Opportunities in China's Market

2.1. Lao's Export Compatibility with China's Imports

Lao's large-size exports have a relatively high degree of trade compatibility with China's imports, while others have a smaller degree of trade compatibility.² For large size exports, the index of compatibility actually exceeds that of trade between industrialized countries, which averages 0.55. For medium, small and emerging exports, the index is considerably lower and is near the average of 0.22 for developing countries.

Figure 2.1: Trade Compatibility Index between Lao PDR Exports and Chinese Imports

	Index of Trade Compatibility	Examples of Lao exports in category
Large-size Exports	0.67	Copper ore, refined copper, woods, shirts, natural rubber, alkaline
Medium-size Exports	0.29	Lignite, sugarcane, rice, bananas, groundnuts
Small-size Exports	0.23	Lead, zinc, suitcases, overcoats, dried fruits, cocoa butter
Emerging Exports	0.23	Soybeans, cotton, silver, lignite, gum resins

Note: Calculated for products at the 4-digit Harmonized System (HS) level. Large-size exports: greater than US\$10 million; medium-size exports: between US\$1 and US\$ 10 million; small-size exports: between US\$ 0.5million and US\$ 1 million; and emerging exports: under US\$500,000. Benchmark trade compatibility indexes are generally 0.55 for industrialized countries and 0.2 for developing countries.

Advantages for Lao Exporters

With a relatively high degree of trade compatibility, Lao exporters can take advantage of China's fast growing imports in a wide range of processing industries. Others related to the medium, small and emerging exports can exploit China's booming consumer markets. What is particularly important to note is that the ASEAN-China FTA gives Laos a competitive advantage over non-ASEAN countries in supplying products to that country.

Some Key Products

Lao exporters have a wide range of opportunities in the Chinese market. There are already large exports of traditional products in the area of minerals and ores, garments and forestry products (see the statistical appendix to this guide). Raw material products supporting fast-growing Chinese industries will undoubtedly continue to be among the top Lao exports to that market. Nonetheless, the greatest opportunities for Lao exports in the near term will be in the area of agriculture, consumer goods manufactures, industrial products and a variety of other products shown in Figure 2.2.

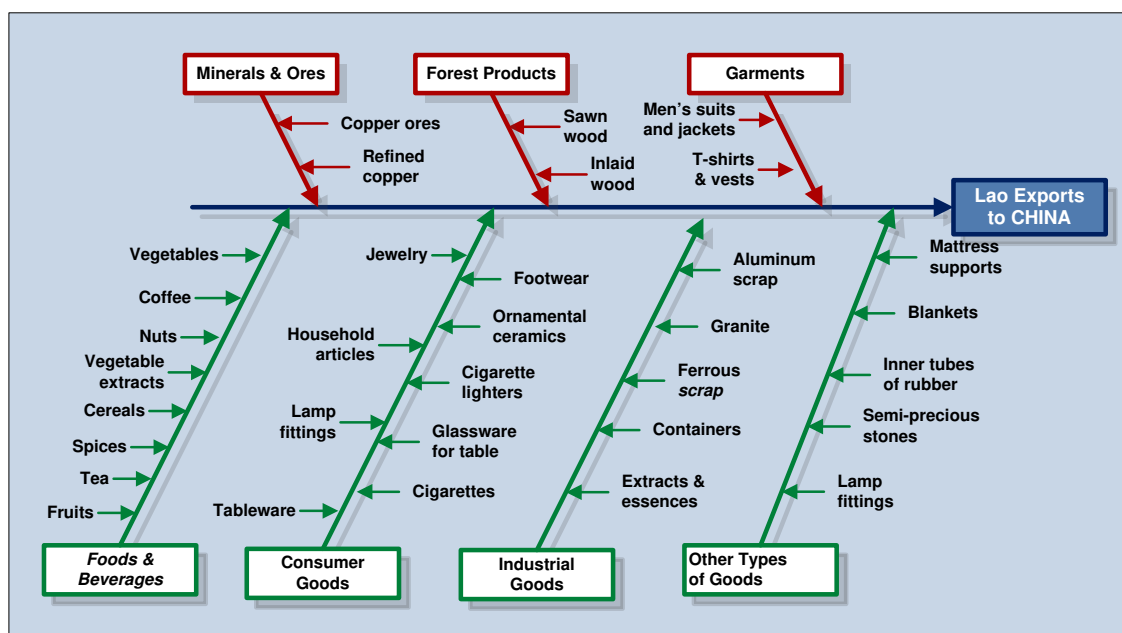
The leading high-growth imports in the Chinese market will be in the following categories:

- *Foods and Beverages*: vegetables and fruits, coffee, nuts, vegetable extracts, cereals, spices, and tea.
- *Consumer Goods*: jewelry, footwear, ornamental ceramics, household articles, glassware for tables, and cigarettes.
- *Industrial Goods*: aluminum and ferrous scrap, granite, containers, and extracts and essences.
- *Other Products*: mattress supports, blankets, inner tubes made of rubber, semi-precious stones, and lamp fittings.

Recognizing these opportunities should stimulate the Laos private sector to take advantage of the ASEAN-China FTA in order to expand exports to the fast-growing China market.

2.2. Winners in the Chinese Markets

Figure 2.2: Lao PDR High Actual and Potential Exports to China



Another way to measure export opportunities to the Chinese market is to examine whether Laos' exports have been directed at dynamic product markets and, if so, whether exporters have been expanding their activities in those markets. The potential growth of firms and industries in the world market and the Chinese market in particular are reflected in high rates of export growth and rising market shares. This type of analysis is suggestive of the actual or potential penetration into dynamic markets for Lao exporters.³

Measuring Penetration in Different Types of Markets

Laos' export growth in different types of product markets in the Chinese market has been measured by the trend growth rate of product exports in the four product categories (large, medium, smaller and emerging exports), and the ratio of product exports relative to Chinese imports of those products. The export performance of Laos has been classified into the following four categories:

- ✓ *Exploited Market Opportunities:* Products in which the Lao PDR has a rising market share and Chinese imports are expanding.
- ✓ *Increased Penetration in Stagnating Markets:* Products in which the Lao PDR has a rising market share but Chinese imports are contracting.
- ✓ *Missed Markets Opportunities:* Products in which the Lao PDR has a falling market share despite expanding Chinese imports.
- ✓ *Reduced Penetration in Stagnating Markets:* Products in which the Lao PDR's market share is falling and Chinese market is contracting.

The most desirable situation is for Lao exporters to be involved in either *exploited market opportunities*, where their products have made headways into dynamic markets, or *missed*

market opportunities, where there is strong export growth potential if Lao exporters improve their competitiveness and increase their market penetration.

Figure 2.3: Matching High-Growth Lao Exports with Dynamic Chinese Imports, 2007-2011



Lao Large-Size Exports

Among large-size exports, some types of men's clothing and apparel, coffee, maize, natural rubber, and refined copper and ores and concentrates have fast-growing Chinese markets where Lao exports have also expanded rapidly. In contrast, Lao exports have been sluggish in the fast-growing markets for certain types of men's clothing, namely, t-shirts and vests and pullovers.

Lao Medium-Size Exports

Among medium-size exports, there have been numerous products where both Chinese imports and Lao exports have grown rapidly. They include footwear, locust beans, bananas, ground nuts, various types of clothing and apparel, wood charcoal, plants used in perfumery, articles of jewelry, mattress supports, and essential oils. Other fast-growing Chinese markets where Lao exporters would do well to increase their market shares are the rubber outer soles of footwear, electrical transformers, natural gums, storage water heaters and certain types of clothing. Some markets, such as that for packing materials, rice and cigarettes in which Lao exports have been fast growing, have contracted in China. Exports of wood products and laminated wood have contracted in Laos, which parallels either stagnant market conditions or contractions in China's imports of those products.

Figure 1.5: Matching High-Growth Lao Exports with Dynamic Chinese Imports, 2007-2011 (continued)

Medium-Size Exports

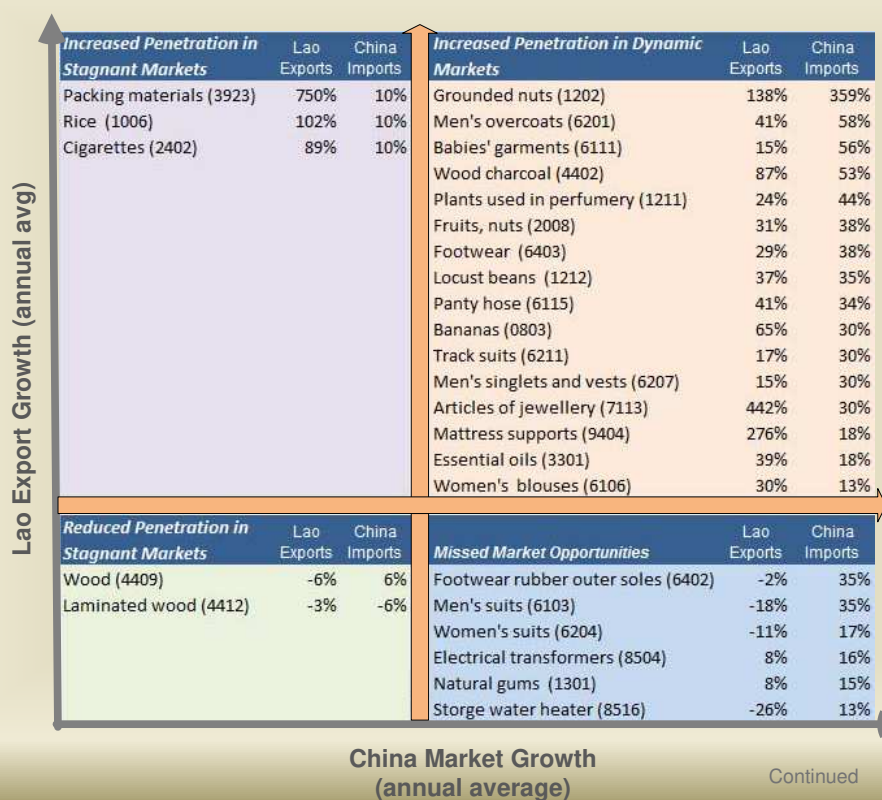


Figure 1.5: Matching High-Growth Lao Exports with Dynamic Chinese Imports, 2007-2011 (continued)

Small-Size Exports



Lao Small-Size Exports

Among Lao's relatively smaller-size exports, there are many types of products with rapidly growing Chinese markets where Lao producers have increased their penetration. They range from fresh and dried fruits to sheets for veneering, suitcases and luggage, ores and concentrates, vegetable saps and extracts, and various types of garments. Some of the rapidly growing markets where Lao exporters have lost market shares because of sluggish exports are preserved vegetables, cigarette lighters and women's overcoats. In contrast, exports have grown rapidly in markets with relatively slow or stagnant Chinese markets, notably footwear parts and copper waste and scrap.

Lao Emerging Exports

There have been fast-growing markets in China for certain sectors like wood marquetry, bed linen, inner tubes made of rubber, natural barium sulphate, ferrous waste, cereal grains, valves for pipes, woven fabrics, fittings loose-leaf binders, precious or semi-precious stones, woven fabrics of cotton, nutmeg mace, extracts of coffee, blankets, electric filament, table or parlor games, aluminum waste, dried vegetables, and worn clothing. In those markets without a clear sector-wide growth pattern, there exist strong markets for ginger spices, woven fabrics of silk, citrus fruit, particle board, jams, fruit juices, tea, and cut flowers. In various others, like dried beans, woven fabrics, soybeans, pile fabrics, embroidery, granite, and clasps for pipes, the Chinese markets have either been stagnant or contracted.

2.3. China's Import Demand Prospects for Lao PDR's Top 10 Exports

2.3.1. Determinants of Foreign Market Demand

China's import demand for Lao exports can be described as a two-stage process:

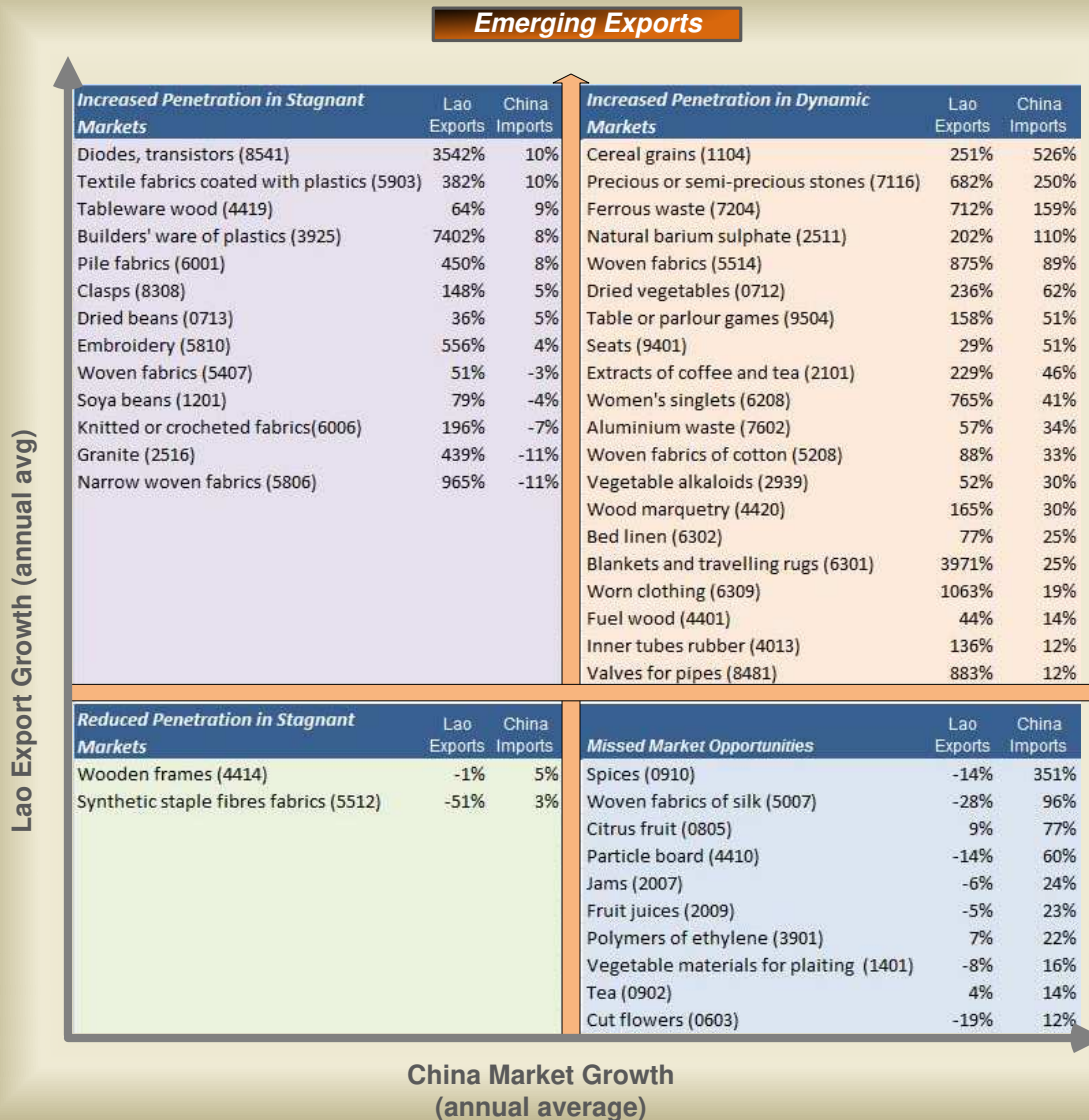
Stage 1: Chinese importers decide how much of a product they want to buy

Major domestic import demand determinants: overall import demand for products is driven by domestic income and economic activity (non-price factors) and prices of foreign goods relative to domestically sourced products.

Stage 2: Chinese importers decide from whom they want to buy the product

Major foreign export demand determinants: All other things being equal, Laos's exports would have a proportional response to China imports, that is, they would tend to grow by the same proportion as imports. However, the Lao PDR's price competitiveness depends on two factors: first, the price at which producers and exporters are able to sell their products relative to other suppliers; and, second, the real exchange rate of Laos relative to that of China, that is, the nominal exchange rate between the Lao kip and the Chinese renminbi, adjusted for the general price index of the two countries. Networking and business relationships also affect the extent to which Lao exporters are able to expand their activities in the Chinese market. These relationships are particularly important for doing business in Asia, unlike Western business practices that are largely based on cost-based competitive procurement practices.

Figure 1.5: Matching High-Growth Lao Exports with Dynamic Chinese Imports, 2007-2011 (continued)



2.3.2. Trending Import Demand Prospects

In order to provide some indication of China's import demand prospects for Lao PDR's 10 major export categories, forecasts have been produced using time-series analysis.

Methodology – This approach essentially projects future movements in trade based on changes in trade, past patterns of change in trade, and actual deviations that have occurred from those patterns in the past.⁴ It is a useful alternative to 'structural models' of trade that explain trade based on price and non-price determinants described in the previous section when there is poor data, as is the case of trade volumes for China's imports of Lao PDR's major export products.⁵

Forecasts – Time series forecasts of China’s import demand show a near-term expansion associated with year-on-year patterns of change. After a while, those import forecast tend to stabilize around their long-term growth of trade.

For each of the Lao PDR’s 10 top exports, China’s value of imports is expected to expand as follows:

Table 2.1: China’s Import Demand of Lao PDR’s Top Ten Export Categories, 1990-2020			
	Historical		Forecast
	1991-2000	2001-2011	2012-2020
Copper and articles thereof	18%	26%	23%
Ores, slag and ash	15%	47%	34%
Wood articles; wood charcoal	14%	15%	15%
Apparel and clothing	17%	13%	14%
Coffee and tea	13%	26%	21%
Cereals	5%	39%	25%
Rubber and articles thereof	18%	27%	24%
Oil seeds and oleaginous fruits	58%	29%	40%
Footwear	-2%	17%	9%
Edible vegetables	42%	40%	41%

As expected, the fast growing imports that are projected for ores, cereals, vegetables, copper and oil seeds are those products that have had dynamic markets in the past, while those with slower projected growth rates like articles of wood, footwear and clothing and apparel have had historically slower rates of growth.

For the average of the 10 products, China’s overall value of imports is projected to grow by 24% annually in 2012-20, in contrast to 20% in 1991-2000 and 28% in 2001-2011.

2.4. Potential Dynamic Markets for Small and Medium-Size Exports

Some of Lao PDR’s small and medium-size exports are among China’s fastest growing imports.⁶ Among the fastest growing ones are those in which Lao’s own exports have been growing rapidly in the last five years (numbers in parenthesis refer to the HS code for the product group):

- ◆ Fruits and nuts (HS 08)
- ◆ Essential oils (HS 33)
- ◆ Furniture (HS 94)
- ◆ Edible vegetables (HS 07)
- ◆ Wood pulp (HS 47)
- ◆ Organic chemicals (HS 29)

Other fast growing imports in the Chinese market have not been matched by similarly fast-growing exports from Laos, so there are opportunities for a more export rapid expansion in the following products (see Figure 2.4):

- + Fertilizers (HS 31)
- + Organic chemicals (HS 29)
- + Base metals (HS 81)
- + Raw hides (S 94)

Figure 2.4: Potential Growth Markets in China for SME Exports from Lao PDR



PART 3: Exporter's Guide to China's Market

3.1. How Lao Exporters Can Benefit from the ASEAN-China FTA

There are five reasons why Lao exporters should take advantage of the ASEAN-China FTA:

- (1) **High tariff rates for non-preferential suppliers.** China's level of protection is higher than most other Asian economies. Its Most Favored Nation (MFN) Tariff Trade Restrictiveness Index (TTRI) in recent years has averaged nearly 5%, which is in line with that of all East Asian countries.⁷ The MFN rate is the non-preferential rate applied to countries. As a member of ASEAN, Lao exporters can export to China under preferential rates and therefore have a substantial competitive advantage in selling their products to Chinese businesses at effectively lower prices.
- (2) **High tariff rates for agricultural products.** China's tariffs on agricultural product imports are very high, averaging 57% in recent years, compared with 8% in other East Asian countries. High MFN rates in these types of products give Lao exporters an especially large competitive advantage over non-preferential suppliers to Chinese businesses.
- (3) **China lacks a conducive business environment.** For 2013, China ranks 91 among 185 countries in Ease of Doing Business.⁸ In trading across borders, it ranks even higher at number 68. It considerably underperforms the industrialized economies in the time and cost of importing goods, as well as the number of documents needed to import goods. These difficulties, however, affect all foreign supplies equally. With tariff and non-tariff preferences, Lao businesses can have a significant competitive advantage over other countries lacking those preferences.
- (4) **China's logistics environment is relatively favorable to trading.** China's overall Logistics Performance Index (LPI) equals 3.5 in a scale of 1 (low) to 5 (best). It substantially outperforms the average of the ASEAN countries in the quality of transport and IT infrastructure, logistics competence of officials, international transport costs, traceability of shipments, and timeliness of shipments. This type of logistics environment facilitates the transport of goods from Laos. Moreover, transport infrastructure between the two countries is being developed that will greatly facilitate the shipment of goods to China.
- (5) **China is one of the fastest growing markets in Asia.** Two-way trade between China and ASEAN increased by nearly 30% in 2011 and is targeted to expand by another 20% by 2015. In the case of the Lao PDR, the trade expansion has been much higher. In the last five years, Lao exports to China have grown by an average of 80% a year and that rapid expansion is expected to continue in the coming years. The Chinese leaders are committed to strengthening trade ties with the ASEAN countries in general and Laos in particular.⁹

3.2. Steps for Lao Exports to Use the ASEAN-China FTA

Figure 3.1 shows the general steps to using Lao PDR's FTA with China under the ASEAN-China FTA. Essentially, it involves (a) determining whether there are benefits to using the FTA, and (b) determining whether the product exports are eligible for FTA preferential rates.

Step 1: Establish the tariff classification of a good by determining the Harmonized System (HS) code of your product.

To determine your 6 or 8 digit HS code, visit the Lao Trade Portal at: <http://www.laotradeportal.gov.la/index.php?r=tradeInfo/index>. The HS code can be searched by entering a description of your product.

Step 2: Step 3: Check the tariff commitments for the good in the relevant tariff schedule

➡ *See Section 3.3 on determining FTA benefits.*

Step 3: Determine the Rules of Origin (ROO) applying to the good

➡ *See Section 3.4 on determining eligibility for FTA preferential tariff rates.*

Step 4: Obtain a Certificate of Origin.

For exporting to China as well as other countries that have a preferential tariff with the Lao PDR or with ASEAN, you can obtain a Certificate of Origin from the Certificate of Origin Division of the Ministry of Industry and Commerce (MOIC).¹⁰

3.3. Key Elements for Laos of ASEAN-China FTA

Fast Track and Sensitive Track Tariff Reductions

The Agreement on Trade in Goods provides for China and the ASEAN-6 countries to have substantially or completely eliminated tariffs and other barriers to 90% of trade in 2010 and another 135 tariff lines in 2012. For Laos, Cambodia, Myanmar, and Vietnam, the Agreement provides for tariffs to be completely eliminated on 90% of trade by 2015 and for an additional 250 tariff lines to be eliminated by 2018.

Normal Track: The Normal Track applies to about 90% of all goods covered by the Agreement. For Laos, tariff lines in this category have their respective applied MFN rates gradually reduced or eliminated based on the following schedule:

X = Applied MFN tariff rate	ASEAN-China FTA Preferential Tariff Rate		
	2011	2013	2015
$x > 60\%$	15	10	0
$45\% < x < 60\%$	15	10	0
$35\% < x < 45\%$	15	5	0
$30\% < x < 35\%$	10	5	0
$25\% < x < 30\%$	10	5	0
$20\% < x < 25\%$	10	0-5	0
$15\% < x < 20\%$	5	0-5	0
$10\% < x < 15\%$	5	0-5	0
$7\% < x < 10\%$	5	0-5	0
$5\% < x < 7\%$	5	0-5	0
$x < 5\%$	Standstill		0

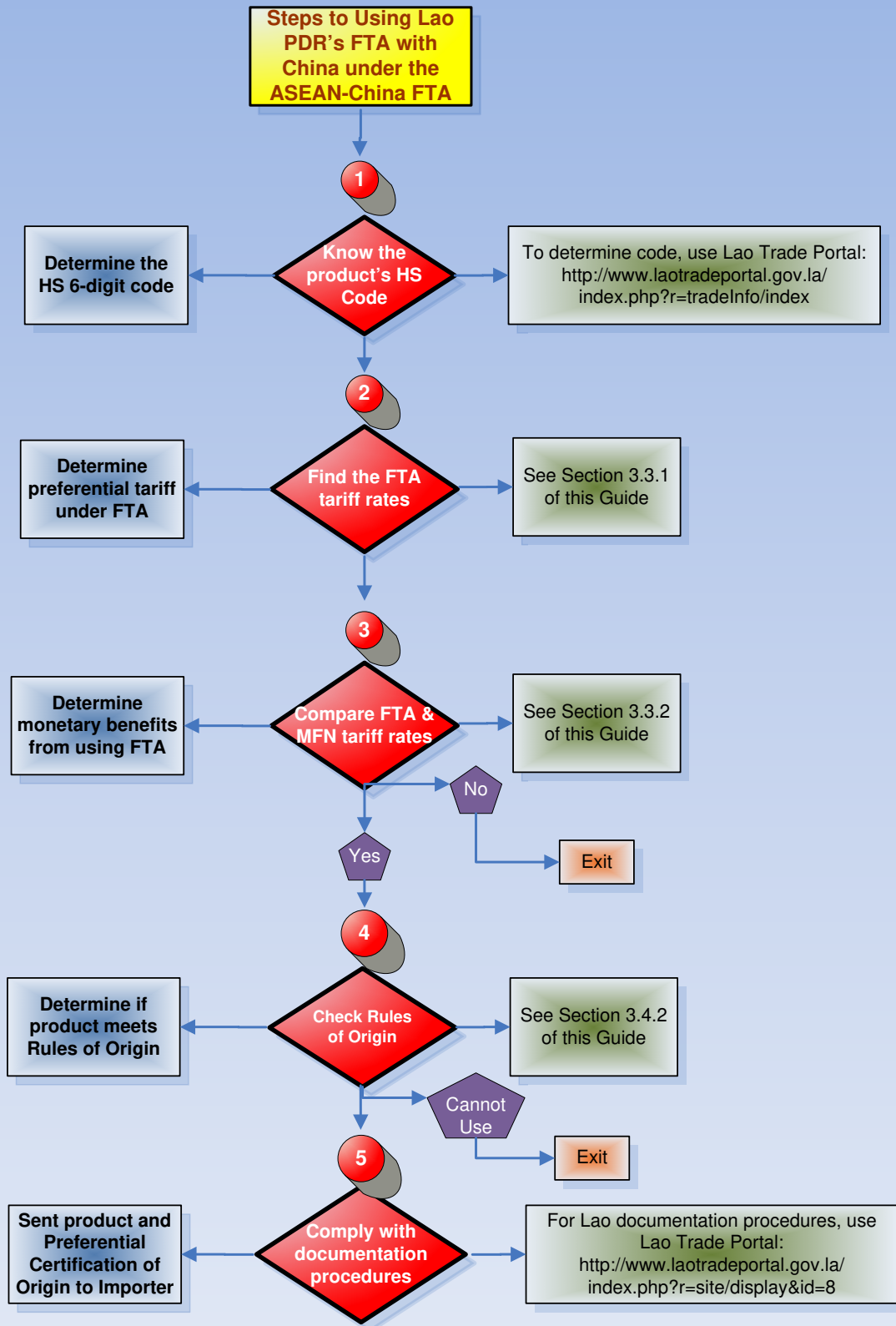
Sensitive Tracks: There are two schedules for sensitive products, one referring to 'sensitive products' and the other to 'highly sensitive products'.

A. Sensitive Track for Lao PDR

- *Coverage:* Applies to 4% of all the tariff lines.
- *Schedule:* Duties were reduced to 20% in 2012 and will be reduced to 0-5% by 2018.

B. Highly Sensitive Track for Lao PDR

Figure 3.1: General Steps in Using Lao PDR's FTA with China



- **Coverage:** Applies to 271 tariff lines at the HS 6-digit level or 2.6% of all the tariff lines (products) at the HS 6-digit level.
- **Schedules:** Duties will be reduced to no more than 50% by 2015 with no further tariff reduction commitments.

Illustration of Benefits for Lao PDR's Top Exports

For Lao PDR's top 30 export products, Table 3.1 illustrates the difference between the tariff costs for non-preferential exports to China and those under the increasing preferential rates.

Table 3.1: Difference between Preferential and Non-Preferential Tariffs in ASEAN–China FTA for Lao PDR's Top 30 Product Exports

Lao Exports of US\$ 100,000 to China								
Item		If Exporter Does Not Comply with ASEAN-China	If Exporter Does Complies with ASEAN-China FTA					
			2011		2013		2015	
HS Code	Description		Preferential Rate	Savings	Preferential Rate	Savings	Preferential Rate	Savings
VEGETABLE PRODUCTS								
70490	Cabbages, kohlrabi, kale fresh/chilled	13% applied tariff = \$13,000	5% applied tariff = \$5,000	\$ 8,000	2.5% applied tariff = \$2,500	\$ 10,500	0% applied tariff = \$0.0	\$13,000
90111	Coffee, not roasted	8% applied tariff = \$8,000	% applied tariff = \$5,000	\$ 3,000	2.5% applied tariff = \$2500	\$ 5,500	0% applied tariff = \$0.0	\$ 8,000
100590	Maize (corn), other than seed	65% applied tariff = \$65,000	15% applied tariff = \$15,000	\$50,000	10% applied tariff = \$10,000	\$ 55,000	0% applied tariff = \$0.0	\$ 65,000
1.2E+07	Sugar cane	20% applied tariff = \$20,000	10% applied tariff = \$10,000	\$10,000	2.5% applied tariff = \$2,500	\$ 17,500	0% applied tariff = \$0.0	\$ 20,000
MINERAL PRODUCTS								
252010	Gypsum; anhydrite	6% applied tariff = \$6,000	5% applied tariff = \$5,000	\$ 5,000	2.5% applied tariff = \$2,500	\$ 3,500	0% applied tariff = \$0.0	\$ 6,000
260300	Copper ores & concentrates	0% applied tariff = \$0.0	0% applied tariff = \$0.0	\$ -	0% applied tariff = 0.0	\$ -	0% applied tariff = \$0.0	\$ -
270119	Coal other than anthracite & bituminous	6% applied tariff = \$6,000	5% applied tariff = \$5,000	\$ 1,000	2.5% applied tariff = \$2,500	\$ 3,500	0% applied tariff = \$0.0	\$ 6,000
CHEMICAL PRODUCTS								
391000	Silicon of silicon	6.5% applied tariff = \$6,500	5% applied tariff = \$5,000	\$ 1,500	2.5% applied tariff = \$2,500	\$ 4,000	0% applied tariff = \$0.0	\$ 6,500
280530	Rare-earth metals, scandium	5.5% applied tariff = \$5,500	5% applied tariff = \$5,000	\$ 500	2.5% applied tariff = \$2,500	\$ 3,000	0% applied tariff = \$0.0	\$ 5,500
310590	Fertilisers of nitrogen, phosphorus & potassium	4% applied tariff = \$4,000	0% applied tariff = \$0.0	\$ 4,000	0.0% applied tariff = \$0	\$ 4,000	0% applied tariff = \$0.0	\$ 4,000
RUBBER & RUBBER PRODUCTS								
400121	Natural rubber in smoked sheets	20% applied tariff = \$20,000	10% applied tariff = \$10,000	\$10,000	2.5% applied tariff = \$2,500	\$ 17,500	0% applied tariff = \$0.0	\$ 20,000
400122	Technically spec. natural rubber (TSNR)	20% applied tariff = \$20,000	10% applied tariff = \$10,000	\$10,000	2.5% applied tariff = \$2,500	\$ 17,500	0% applied tariff = \$0.0	\$ 20,000
ARTICLES OF WOOD								
440200	Wood charcoal	10.5% applied tariff = \$10,500	5% applied tariff = \$5,000	\$ 5,500	2.5% applied tariff = \$2,500	\$ 8,000	0% applied tariff = \$0.0	\$ 10,500
440399	Wood, in the rough	1% applied tariff = \$1,000	0% applied tariff = \$0.0	\$ 1,000	0% applied tariff = \$0.0	\$ 1,000	0% applied tariff = \$0.0	\$ 1,000
440729	Wood sawn/chipped lengthwise	3% applied tariff = \$3,000	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000
440799	Wood, sawn/chipped lengthwise	10% applied tariff = \$10,000	5% applied tariff = \$5,000	\$ 5,000	2.5% applied tariff = \$2,500	\$ 7,500	0% applied tariff = \$0.0	\$ 10,000
440929	Wood continuously shaped	4% applied tariff = \$4,000	0% applied tariff = \$0.0	\$ 4,000	0% applied tariff = \$0.0	\$ 4,000	0% applied tariff = \$0.0	\$ 4,000

Table 3.1: Difference between Preferential and Non-Preferential Tariffs in ASEAN–China FTA for Lao PDR's Top 30 Product Exports (Continued)

Lao Exports of US\$ 100,000 to China								
Item		If Exporter Does Not Comply with ASEAN-China	If Exporter Does Complies with ASEAN-China FTA					
			2011		2013		2015	
HS Code	Description		Preferential Rate	Savings	Preferential Rate	Savings	Preferential Rate	Savings
TEXTILES AND TEXTILE ARTICLES								
610510	Men's/boys' shirts of cotton	16% applied tariff = \$16,000	5% applied tariff = \$5,000	\$11,000	2.5% applied tariff = \$2,500	\$13,500	0.0% applied tariff = \$0.0	\$16,000
610711	Men's/boys' underpants of cotton	14% applied tariff = \$14,000	5% applied tariff = \$5,000	\$9,000	2.5% applied tariff = \$2,500	\$30,000	2.5% applied tariff = \$2,500	\$32,500
610910	T-shirts, singlets of cotton	14% applied tariff = \$14,000	5% applied tariff = \$5,000	\$5,000	2.5% applied tariff = \$2,500	\$11,500	0% applied tariff = \$0.0	\$14,000
611020	Jerseys, pullovers, cardigans of cotton	14% applied tariff = \$14,000	5% applied tariff = \$5,000	\$5,000	2.5% applied tariff = \$2,500	\$11,500	0% applied tariff = \$0.0	\$14,000
611030	Jerseys, pullovers of man-made fibres	16% applied tariff = \$16,000	15% applied tariff = \$15,000	\$20,000	5% applied tariff = \$5,000	\$30,000	2.5% applied tariff = \$2,500	\$32,500
620343	Men's/boys' trousers, of synthetic fibres	17.5% applied tariff = \$17,500	5% applied tariff = \$5,000	\$12,500	2.5% applied tariff = \$2,500	\$15,000	0.0% applied tariff = \$0.0	\$17,500
620520	Men's/boys' shirts of cotton	16% applied tariff = \$16,000	5% applied tariff = \$5,000	\$11,000	2.5% applied tariff = \$2,500	\$13,500	0.0% applied tariff = \$0.0	\$16,000
621133	Track suits of man-made fibres	17.5% applied tariff = \$17,500	5% applied tariff = \$5,000	\$12,500	2.5% applied tariff = \$2,500	\$15,000	0.0% applied tariff = \$0.0	\$17,500
BASE METALS								
640399	Footwear without outer soles of leather	10% applied tariff = \$10,000	5% applied tariff = \$5,000	\$5,000	2.5% applied tariff = \$2,500	\$7,500	0% applied tariff = \$0.0	\$10,000
740200	Unrefined copper	2% applied tariff = \$2,000	0% applied tariff = \$0.0	\$2,000	0% applied tariff = \$0.0	\$2,000	0% applied tariff = \$0.0	\$2,000
740311	Cathodes of refined copper, unwrought	2% applied tariff = \$2,000	0% applied tariff = \$0.0	\$2,000	0% applied tariff = \$0.0	\$2,000	0% applied tariff = \$0.0	\$2,000
811299	Germanium, vanadium, gallium	8% applied tariff = \$8,000	5% applied tariff = \$5,000	\$3,000	2.5% applied tariff = \$2,500	\$5,500	0% applied tariff = \$0.0	\$8,000

3.4. Requirements for Receiving Preferential Market Access

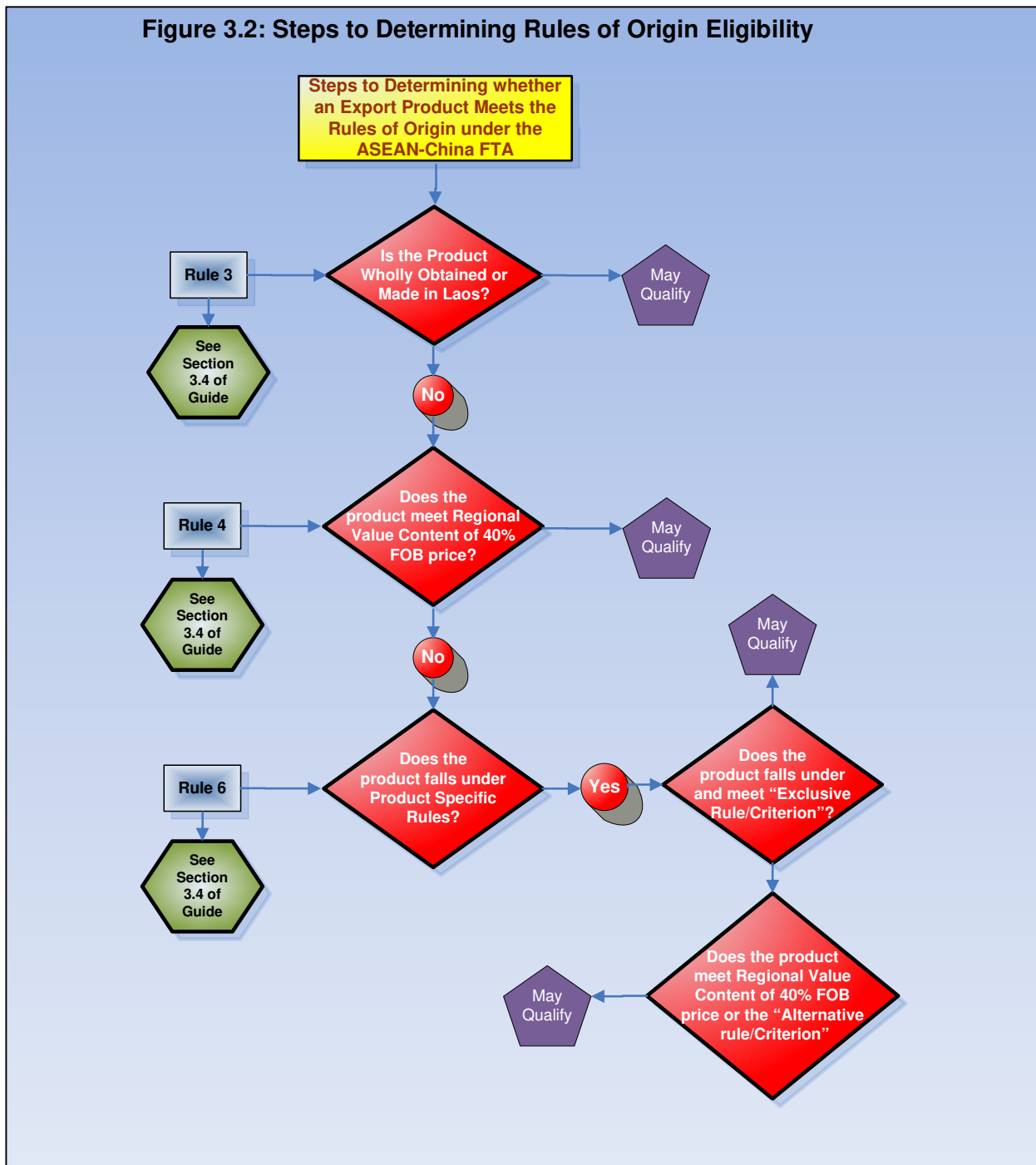
Compliance with Rules of Origin: The Certificate of Origin (C/O) establishes compliance with the Rules of Origin (ROO) of the ASEAN-China FTA and determines whether goods will be given preferential tariff treatment under the Agreement. It prevents products from outside the ASEAN-China region from having access to FTA benefits. Therefore compliance with ROO is important in exporting products under the ASEAN-China FTA, and is outlined in Annex 3 of the Agreement.

Origin Criteria

The Origin criterion says that a good is originating and eligible for preferential tariff treatment if it meets any one of the following:

- (1) A good is wholly obtained or produced entirely in the territory of Laos (Rule 3); or
- (2) A good is not wholly obtained or produced in the territory of the exporting Party, provided that the good is eligible under the Product Specific Rules (Rule 6: Attachment B). These rules mainly refers to a change in its tariff classification under the Harmonized System (HS) for products produced in Laos from materials originating in non-AANZFTA countries.

Figure 3.2: Steps to Determining Rules of Origin Eligibility



Rule 3: Wholly Obtained or Produced Goods

Certain types of products may be considered to be wholly obtained or produced in the territory of Laos. Among the product types of interest to Laos are plants, live animals and their products, and minerals.

Rule 4: Not Wholly Obtained or Produced Goods

In cases where a good is not wholly obtained or produced in Laos, it is nevertheless considered to be originating from Laos if either of the following conditions applies:

- (1) The *ACFTA Content* is at least 40%, or
- (2) The total value of the materials originating from outside of the countries that are signatories to the ASEAN-China FTA does not exceed 60% of the FOB value of the product, as long as the final manufacturing process takes place within the ASEAN-China FTA countries.

ACFTA Content – The originating criterion is referred to as the ‘*ACFTA content*’, and the formula for the 40% ACFTA content is calculated as follows:

$$\frac{\text{Value of NonACFTA materials} + \text{Value of materials of undetermined origin}}{\text{FOB price}} \times 100\% < 60\%$$

Therefore the ACFTA content is equal to:

$$\text{ACFTA content} = 100\% - \text{nonACFTA materials} = \text{at least } 40\%$$

Definitions:

- (a) Non-Originating Materials are defined as either of the following:
 - (a) The CIF value at the time of importation of the materials, or
 - (b) The earliest price paid for the materials of undetermined origin in the territory of an ACFTA country where the working or processing takes place.
- (b) Originating Materials are defined as material whose country of origin is the same country as the country in which the material is used in production.

Example: A Lao company sells its product to a Chinese buyer for \$100 a unit. The company buys material inputs from Japan (a non-originating supplier for the ACFTA) at a cost of \$40 a unit. The value of the originating materials in the good is \$60. Those originating material costs consist of the sum of originating material costs, direct labor costs, direct overhead costs, transportation, and profits. The calculation of the non-ACFTA content is as follows:

$$40\% = \frac{\$40}{\$100}$$

The Lao businessperson then calculates the ACFTA content as follows:

$$60\% = 100\% - 40\%$$

Therefore, the ACFTA content of the good is 60% and the product qualifies as originating since it meets the minimum requirement of 40% to receive preferential treatment.

Rule 5: Cumulative Rule of Origin

Products that comply with origin requirements under Rule 2 and that are used in the territory of a ACFTA member country as materials for a finished product eligible for preferential treatment under the Agreement are considered as products originating in the territory of the ACFTA member country where working or processing of the finished product has taken place provided that the aggregate ACFTA content on the final product is not less than 40%.

Rule 6: Product-Specific Criteria

Products that have undergone sufficient transformation in an ACFTA member country are treated as originating goods of that country. Products that satisfy the Product Specific Rules are considered as goods to which sufficient transformation has been carried out in an ACFTA member country.

Rule 7: Minimal Operations and Processes

Operations or processes undertaken by themselves or in combination with each other for the purposes listed below are considered to be minimal and are not taken into account in determining whether a good has been wholly obtained in one country:

- (a) ensuring preservation of goods in good condition for the purposes of transport or storage;
- (b) facilitating shipment or transportation;
- (c) packaging or presenting goods for sale.

Rule 8: Direct Consignment

The following are considered as consigned directly from the exporting ACFTA member country to the importing Party:

1. If the products are transported passing through the territory of any other ACFTA member country;
2. If the products are transported without passing through the territory of any non-ACFTA member country;
3. The products whose transport involves transit through one or more intermediate non-ACFTA member states with or without transshipment or temporary storage in such countries, provided that:
 - (a) the transit entry is justified for geographical reason or by consideration related exclusively to transport requirements;
 - (b) the products have not entered into trade or consumption there; and
 - (c) the products have not undergone any operation there other than unloading and reloading or any operation required to keep them in good condition.

Rule 9: Treatment of Packing

- (a) Where for purposes of assessing customs duties, a ACFTA member country treats products separately from their packing, it can also determine separately the origin of the packing.
- (b) Where paragraph (a) above is not applied, packing is considered as forming a whole with the products.

Rule 9: Accessories, Spare Parts and Tools

The origin of accessories, spare parts, tools and information materials presented with the goods will be neglected in determining the origin of the goods, provided that such accessories, spare parts, tools and information materials are classified and collected customs duties with the goods by the importing ACFTA member country.

Rule 10: Neutral Elements

The origin of power and fuel, plant and equipment, or machines and tools used to produce the goods or the materials used in its manufacture that do not remain in the goods or form part of the goods are not be taken into account.

Rule 10: Certificate of Origin

Products that are accepted as eligible for preferential concession must be supported by a Certificate of Origin issued by the Government of the Lao PDR (see Section 3.5 below).

3.5. Export Compliance Requirements

The requirements for exporting Lao PDR-originating product are described in detail in the **Lao Trade Portal** at <http://www.laotradeportal.gov.la>. The following is a brief outline of those requirements. Details and helpful resources are available online on the Lao Trade Portal.

Registration

Export should register with the *Ministry of Industry and Commerce, Enterprise Registration Division*.

Export License

Some products require an export license from the *Ministry of Industry and Commerce, Department of Import and Export (DIMEX)*. The license can be either automatic or non-automatic. Rules about licensing are governed by *Notification No. 0076*

Certificate of Origin

A *Certificate of Origin* for China can be obtained from the *Ministry of Industry and Commerce, Certificate of Origin Division*.

Sanitary and Phytosanitary Requirements

For those products subject to sanitary and phytosanitary (SPS) measures, a permit can be obtained from the *Ministry of Agriculture and Forestry*, either from the *Livestock Department* or from the *Plant Quarantine* department depending on what products are to be exported.

Lao PDR has established an *SPS Enquiry Point* as required by the *WTO SPS Agreement*. Questions can be directed at the *SPS Enquiry Point* on any issue about sanitary and phytosanitary requirements. Details of the *SPS Enquiry Point* are available on the La Trade Portal website at <http://www.laotradeportal.gov.la>.

Technical Requirements

For certain types of products it may be necessary to obtain a permit that certifies that these products conform to certain technical standards. These technical regulations are administered by the *Ministry of Science and Technology*.

Lao PDR has established a *TBT Enquiry Point* as required by the *WTO SPS Agreement*. Questions regarding technical standards can be directed at the *TBT Enquiry Point*. Details on the *TBT Enquiry Point* are available on the *Lao Trade Portal* website at <http://www.laotradeportal.gov.la>.

Export Declaration

All goods exported from Laos must be declared to Customs. A declaration is made by submitting a duly completed and signed ACDD Form together with the following minimum supporting documents:

- A commercial invoice or contract of sale document from the supplier of the goods
- Transport documents such as Bill of Lading or Air Way Bill
- Packing List (if available)

Payment of Duties

Once a declaration has been submitted and accepted by Customs, payments must be made for any applicable duties.

Duty Exemption for Exports

The Government of the Lao PDR encourages exports of certain types of products, including most agricultural products, products derived from natural resources, and manufactured products. Those types of products are exempt from the payment of Customs duties. Where export duty is payable, information can be obtained from the *Department of Customs* or from the *Department of Import and Export (DIMEX)* of the *Ministry of Industry and Commerce*.

PART 4: How to Expand Exports to China

4.1. SWOT Analysis for Lao Exports to Chinese Preferential Markets

The Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis in Figure 4.1 show that *lack of awareness* is the primary factor preventing Lao exporters from making greater use of the ASEAN-China FTA. Other limitations, such as lack of sufficient Export Quality Infrastructure (EQI), are being remedied by addressing import standards and certification of products, competence of laboratories related to export, and accreditation of certification centers for groups of products to be sold abroad.¹¹

The SWOT analysis emphasizes that the *strengths* of Lao exporters offer large *opportunities* for exporters of all sizes, including SMEs, to realize opportunities that currently exist in the Chinese markets. Some of the key opportunities are as follows:

- Expanding and diversifying exports into high-growth markets in China.
- Increasing export competitiveness by invoking preferential tariffs, thereby reducing costs to importers and expanding demand for exports from Laos.
- Filling domestic supply gaps of Chinese producers in raw materials and agricultural products that are abundant in Laos.
- Facilitating SME networking in focal sectors of high interest to Chinese importers, thereby ensuring the ability of new exporters to survive and the capacity of established ones to sustained export growth to the Chinese market and elsewhere.
- Proactively supporting Lao exports to China through the institutionalization of training programs to facilitate processing of export documents, instituting best practices in production, distribution and marketing products destined for Chinese markets, and linking producers to high value chains in Chinese markets.

Figure 4.1: Strengths, Weaknesses, Opportunities and Threats (SWOT) for Lao PDR's Exports to China

	Supply Chain Structure and Functioning	Chinese Market	Small and Medium-Size Enterprises	Institutional Framework
Strengths	<ul style="list-style-type: none"> • Wide range of natural resources and agricultural products that form part of Chinese supply chains. • Laos has a comparative advantage in terms of distance to Chinese market relative to other suppliers. 	<ul style="list-style-type: none"> • Chinese demand for quality agri-food products and natural resources is growing rapidly. • Sourcing from non-Chinese producers is outpacing domestic sourcing. • Chinese non-preferential tariffs in agriculture, natural resources and textiles are high, so Laos has a large competitive advantage in supplying these types of products to those market at preferential rates. 	<ul style="list-style-type: none"> • Strengthening of domestic SPS measures is greatly facilitating agri-food exports by SMEs. • Lao SMEs are competitive in garments. • Rapid economic growth is helping proliferation of SME numbers. • Networking among SME provides scale economies, knowledge-transfer to new entrants to the export market. 	<ul style="list-style-type: none"> • Accessing domestic or foreign government support and information is relatively easy and accessible to all, for example, identification of proper access channels to FTA tariff schedules, FTA rules and trade regulations, and documentation requirements. • Lao Trade Portal facilitates SME access to procedures to export to China under preferential arrangements. • SMEPDO is implementing business networks and exchange of best practices for SMEs to access foreign markets like those in China.

Figure 4.1: Strengths, Weaknesses, Opportunities and Threats (SWOT) for Lao PDR's Exports to China
(Continued)

	Supply Chain Structure and Functioning	Chinese Market	Small and Medium-Size Enterprises	Institutional Framework
Weaknesses	<ul style="list-style-type: none"> • Laos lacks sufficient Export Quality Infrastructure (EQI) to meet Chinese quality standards. • Impediments for Chinese markets are (i) import standards and certification of products, (ii) competence of laboratories related to export, (iii) accreditation of laboratories, metrology and inspection. 	<ul style="list-style-type: none"> • Large competitions from ASEAN-6 countries (Indonesia, Thailand, Malaysia, Singapore, Philippines and Vietnam). • ASEAN-6 countries have faster track for implementing tariff preferences in normal and sensitive products in ASEAN-Chinese FTA. • Lao producers lack awareness of ASEAN-Chinese FTA, for example, how to read and interpret FTA provisions. 	<ul style="list-style-type: none"> • Relatively few SMEs meet Chinese product standards. • SME lack access to information technology (IT) needed to compete in Chinese markets. • SMEs lack sufficient technical and skilled labor in supply chains of importance to China. • SMEs lack knowledge about perception about the benefits of Chinese preferential market access. 	<ul style="list-style-type: none"> • Lao Chamber of Industry and Commerce (LNCCI) lacks support mechanisms for helping Lao exporters to improve to Chinese preferential market. • Trade financing is lacking in Laos, partly because of insufficient IT supporting risk mitigation that would otherwise lower risk premiums of exporters. • Complex and differing rules of origin make it difficult for SMEs to complete export documentation. • Large number of documentation requirements and time need to complete them reduce incentives for businesses, especially those involved in SME activities.
Opportunities	<ul style="list-style-type: none"> • Opportunity to impact growth and employment from upstream and downstream linkages. • Building of sustainable exporter groups can provide leading sectors with continuous supplies. • Opportunity to add value to agricultural products. 	<ul style="list-style-type: none"> • Opportunity to expand and diversify markets from the currently narrow focus on the ASEAN market. • Direct exports of agricultural products to Chinese specialized companies and supermarket chains. • Organic food ingredients and food products are one of the fastest growing segments of the food Chinese market. 	<ul style="list-style-type: none"> • Implementation of outreach programs for Lao SMEs to use ASEA-China FTA. • Target export sectors having high SME participatory rates: agri-foods, wood processing, garments, footwear, and machinery parts. 	<ul style="list-style-type: none"> • Design programs to apply of best practice methods in production, logistics and marketing Lao exports to China and other preferential markets. • Implement support programs to assist businesses certify that goods destined for China meet Rules of Origin requirements. • Establish outreach programs to target sectors with high Koran market potential. • SMEPDO and LNCCI to support businesses networks with Chinese importers and businesses, including field visits.
Threats	<ul style="list-style-type: none"> • Other ASEAN countries, especially those with faster tracks than Laos, could accelerate growth of products that compete with key Lao exports. • High logistics cost due to inadequate infrastructure. 	<ul style="list-style-type: none"> • Chinese importers focus on suppliers from other ASEAN countries having a faster tariff reduction track than Laos. • Chinese product standards out of reach of Lao producers due to insufficient or inadequate Export Quality Infrastructure (EQI). 	<ul style="list-style-type: none"> • Lao SMEs are not given access to outreach and special training programs on ASEAN-Chinese FTA. • Lao SMEs continue to lack access to IT and sufficient technical and skilled labor. 	<ul style="list-style-type: none"> • Lack of funding for programs to support Lao exporters to China and other preferential markets. • Lack of export financing leads to high export risks, which in turn lowers incentives to target Chinese markets. • Lack of sustainability of Lao Trade Portal after project contract is completed. • Lack of sufficient interest in business networking.

4.2. Five Ways to Benefit from ASEAN-China FTA

Channel 1: Preferential Pricing for Chinese Importers

Lao businesses can take advantage of cost-cutting measures from the ASEAN-China FTA. The cost structure of Chinese industries is, in part, reflected in the price of raw materials and intermediate goods imported by the industries. Since imports from Laos are cheaper for Chinese importers than they are from non-preferential supply sources, this cost advantage can greatly increase the demand of Chinese industries for Lao exports. Distance to market and the large Chinese presence in Laos offer non-price advantages to Lao exporters.

Channel 2: Focus on High Growth Markets

The Lao PDR has an abundance of natural resources that are essential to Chinese industries, and it also produces a number of products that have dynamic markets in China. They include garments and apparel, refined minerals and mineral ores, wood products, parts of footwear, fresh and processed agricultural products, nuts, and cereals. With this knowledge, Lao businesses can take full advantage of the favorable business environment offered by the ASEAN-China FTA.

Channel 3: Networking among SMEs

Lao businesses can develop networking systems within domestic industries and with overseas distributors and companies to strengthen their presence in Chinese markets. Networks are important channels for Lao entrepreneurs who are new entrants to export markets in terms of both product placement and specific destinations. Gaining experience through those networks is critical to the export survival rates of Lao firms.¹² In export markets like agri-foods, for example, supermarkets now dominate food supply chains in Asia and are rapidly expanding their global presence. Those types of supply chains require high standards that networks can facilitate to its members. At the same time, international mergers and acquisitions and aggressive pricing strategies have concentrated market power in the hands of a few major retailers. That type of industry structure means that Lao businesses can focus their production and marketing activities on a relatively few Chinese buyers.

Channel 4: Improve Export Quality Infrastructure

Access to overseas markets like the ones in China is generally subject to stringent production standards. For example, in agri-foods, there are supply chain standards worldwide for Good Agricultural Practice (GAP), and other types of certification that are now prerequisite for doing business in China and other markets. Similarly, standards exist for clothing and footwear produced for multinationals operating in China. The benefits from bringing Export Quality Infrastructure (EQI) in line with those international standards are considerable, as are the economy-wide impact that would be produced from additional employment and expenditures on downstream and supporting industries.

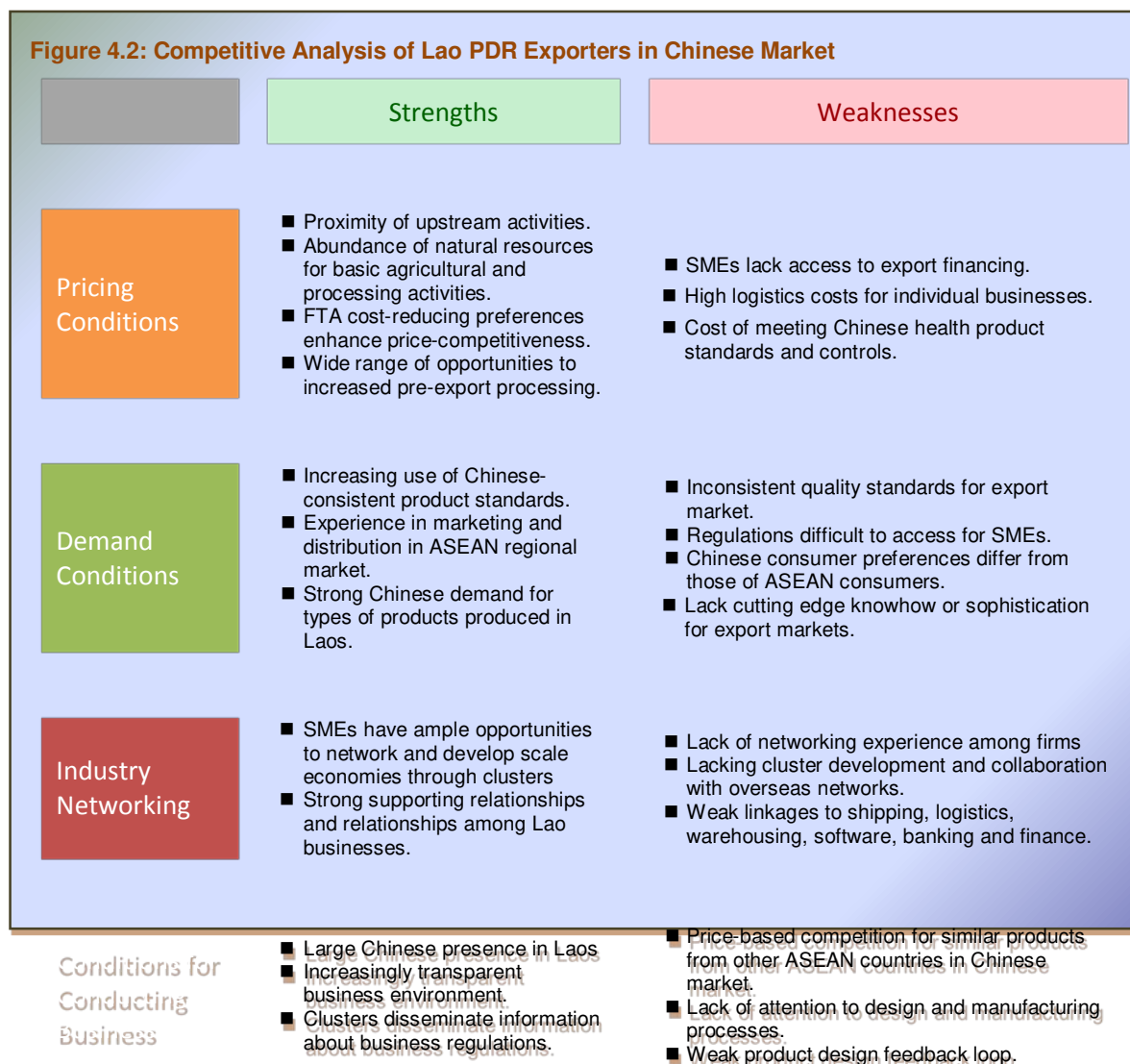
Channel 5: Strengthen Institutional Support Mechanisms

Lao businesses can benefit from several types of institutional mechanisms:

- ✓ Information systems such as the Lao Trade Portal.
- ✓ Large Chinese presence in the Lao PDR and opportunities to promote trade with ASEAN countries in support of the FTA.

- ✓ Domestic institutions helping to facilitate best practices for production, distribution and marketing to overseas buyers in China and elsewhere.
- ✓ SME clusters that facilitate logistics and possibly strengthen access to trade financing.

Figure 4.2 below summarizes these opportunities for Lao exporters to the Chinese market under the type of competitive analysis that is useful for businesses when developing a strategy and action plan for their business plans.



PART 5: Useful Resources

5.1. Contacts and Resources

ASEAN-China Centre

Description: one-stop information bank and activities center to promote ASEAN-China cooperation in trade, investment, tourism, education and culture. The Center is headquartered in Beijing, but it will gradually develop branches in other areas in China and set up offices in ASEAN member states.

Site: <http://www.asean-china-center.org>

Customs Department of Ministry of Finance

Description: Information on customs duties and border regulations, along with legislation and customs regime, and tariff nomenclature.

Site: <http://customs.gov.la>

Lao National Chamber of Commerce and Industry (LNCCI)

Description: LNCCI represents the business community in Lao PDR. It has more over 1000 members represented through Chambers of Commerce in 13 provinces and business associations and groups. Its mandate is to identify problems and concerns of members and make sure that they are presented to the government.

Site: www.laocci.com

Contact: Kayson phomvihane Ave., Ban Phonphanao, Saysettha District, Vientiane Capital, Lao PDR, P.O.Box: 4596, Tel: (+856 - 21) 453 312; Fax: (+856 - 21) 452 580. Email: lncci@laopdr.com

Lao Trade Portal

Description: Their website is a single stop point for all information relating to export from Laos, along with imports into the country.

Site: www.laotradeportal.gov.la

Contact: Department of Import and Export, Ministry of Industry and Commerce. Phonexay Road, Ban Phonexay, Saysettha District, PO Box 4107, Vientiane Capital, Lao PDR. Tel: +856 21 454 224; Fax: +856 21 454 224. Email: enquiries@laotradeportal.gov.la

Ministry of Agriculture

Description: For exports of agricultural products, producers and exporters can obtain the relevant permits and sanitary and phytosanitary certificates from the following departments: (a) Department of Agriculture; and (b) Department of Livestock and Fisheries.

Site: www.maf.gov.la

Ministry of Industry and Commerce

Description: Provides comprehensive information on all aspects of trade and industrial activity in Laos, with links to contacts in the key department for exporters:

- Import and Export Department
- Inspection Department
- Industry and Handicraft Department
- Production and Trade Promotion Department
- SME Department.

Site: www.moc.gov.la

Contacts: Phonexay Road, Ban Phonexay, Saysettha District, PO Box 4107, Vientiane Capital, Lao PDR. Tel: +856 21 454 224; Fax: +856 21 454 224.

Ministry of Science and Technology

Description: For exports that must meet certain technical standards, this Ministry issues the necessary certificates or permits required to import or export products which are subject to certain technical standards.

Site: <http://www.most.gov.la/>

National Portal of Lao PDR

Description: The site has extensive information on all government agencies, legislation, e-services, and the business sector.

Site: www.laopdr.gov.la/

SPS-TBT Inquiry Point

Description: A comprehensive site providing answers on technical requirements and SPS-related measures for products sold in their countries.

Site: <http://www.laotradeportal.gov.la/index.php?r=site/displayb&id=103#Top>

Contact: Department of Planning, Division of Agriculture and Forestry Ministry of Agriculture and Forestry, P.O.Box 811 Vientiane, Lao PDR, Tel: +856 21 415363; Fax: +856 21 412343. Email: spsenquiries@laotradeportal.gov.la

SMEPDO: National Small and Medium Sized Enterprise Office

Description: The principal office promoting Lao SMEs.

Site: <http://www.smepdo.org>

Contact: Nong Bone Rd, Xaysettha District, Ban Fai Area, Vientiane Capital, Lao PDR, P.O.Box 474, Tel.: +856 21 414064, +856 21 263590, Fax: +856 21 263591, E-mail: info@smepdo.org.

5.2. Glossary of Terms

Term	Acronym	Description
Accumulation	-	Provision that allows, when determining the origin of a good, for the consideration of inputs as originating provides that they come from another country that participates in the free trade zone.
Ad Valorem Tariff	AVT	A tariff rate charged as percentage of the price.
Applied Tariff/Applied Rated	-	Duties that are actually charged on imports. These can be below the bound rates.
Association of Southeast Asian Nations	ASEAN	Comprises of 10 member States. Nine ASEAN members are members of the WTO - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
Certificate of Origin (C/O)	C/O	A document used in international trade. It is a printed form, completed by the exporter or its agent and certified by an issuing body,

Term	Acronym	Description
		attesting that the goods in a particular export shipment have been wholly produced, manufactured or processed in a particular country.
Change in Tariff Classification(CTC)	CTC	Criteria used in the determination of origin that stipulates the change in the tariff nomenclature that an imported input must undergo when incorporated into a final good so that the final good may acquire originating status. The change in tariff classification can be at Chapter level (first two digits of the tariff nomenclature), Heading level (first four digits of the tariff nomenclature), or Sub-heading level (first six digits of the tariff nomenclature).
Change in Tariff Heading (CTH)	CTH	Refers to the processing and manufacturing operations of non-originating materials carried out in the area of one side and resulting in a product of different four-digit tariff heading under the 'Product Description and Harmonized System Codes'
Cost in freight (CIF)	CIF	Refers to the value of the good imported and include the cost of freight and insurance up to the port or place of entry into the country of importation.
Department of Import and Export (DIMEX)	DIMEX	Within the Ministry of Industry and Commerce (MOIC), the department is responsible for issuing import and export licenses for all products that require them, along with the issuance of Certificates of Origin for countries that are part of a preferential trade agreement.
Export Quality Infrastructure (EQI)	EQI	Covers all export-related fields of metrology, standardization and testing, of quality management and conformity assessment, including certification and accreditation. In the past, the abbreviation MSTQ (Metrology, Standardization, Testing and Quality Assurance) was used for this combination of single elements.
Free on Board	FOB	Indicates the price for goods including delivery at seller's expense to a specified point.
Free Trade Agreement (FTA)	FTA	Trade within the group is duty free but members set their own tariffs on imports from non-members (e.g. ASEAN).
Good Agricultural Practice (GAP)	GAP	A set of principles to apply for on-farm production and post-production processes, resulting in safe and healthy food and non-food agricultural products, while taking into

Term	Acronym	Description
		account economic, social and environmental sustainability.
Harmonized System (HS)	HS	An international nomenclature developed by the World Customs Organization, which is arranged in six-digit codes allowing all participating countries to classify traded goods on common basis. Beyond the six-digit level, countries are free to introduce national distinctions for tariffs and many other purposes.
Harmonized System 6-digit	HS 6-digit	The World Customs Organization's Harmonized System (HS) uses code numbers to define products. A code with a low number of digits defines broad categories of products; additional digits indicate sub-divisions into more detailed definitions. Six-digit codes are the most detailed definitions that are used as standard. Countries can add more digits for their own coding to subdivide the definitions further according to their own needs. Products defined at the most detailed level are "tariff lines".
Most Favored Nation (MFN)	MFN	Most-favored-nation treatment (GATT Article I, GATS Article II and TRIPS Article 4), the principle of non-discriminating between one's trading partners.
Most Favored Nation Tariff	MFN Tariff	Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas).
Non-Originating Good	-	A good of material that does not qualify as originating according to the established Origin Regime.
Non-Tariff Barrier to Trade	NTB	Quotas, import licensing systems, sanitary regulations, prohibitions, and other non-tariff trade impediments.
Originating Good	-	A good that, by virtue of fulfilling the requirements of the Origin Regime is considered originating in the country in which its production process has been carried out, regardless of whether imported inputs were used in its production.
Preferential Tariff	-	A tariff rate extended to partner countries who have signed Free Trade Agreements(FTA) with each other. This means that customs duties for selected imported goods that originated from the FTA partner countries are lower or totally eliminated.

Term	Acronym	Description
Regional Value Content (RVC)	RVC	Refers to the total value of raw materials, component parts, labor costs and product development costs exclusively incurred in one side being greater than or equal to an agreed percentage of the FOB value of the exporting goods, and that the final manufacturing or processing operations should be completed in area of that side.
Rules of Origin (ROO)	ROO	Laws, regulations and administrative procedures, which determine a product's country of origin. A decision by customs on whether a shipment falls within a quota limitation, qualifies for a tariff preference or is affected by an anti-dumping duty.
Sanitary and Phytosanitary (SPS)	SPS	Refers to measures taken to protect public health within their borders so long as they do so in a manner that restricts trade as little as possible
Sensitive List	-	A list containing each country's sensitive products.
Sensitive Products	-	Products that would have smaller tariff cuts than from the products in the Normal Track.
Tariff Line	-	A product as defined in lists of tariff rates. Products can be sub-divided, the level of detail reflected in the number of digits in the Harmonized System (HS) code use to identify the product.
Tariff Trade Restrictiveness Index (TTRI)	TTRI	Refers to the uniform tariff which, if applied to all goods, would yield the same welfare level as the existing tariff structure.
Tariffs	-	Customs duties on merchandise imports. Levied either on an ad valorem basis (percentage of value) or on a specific basis (e.g. \$7 per 100 kgs). Tariffs give advantage to similar locally - produced goods and raise revenues for the government.
Trade Facilitation	-	Process that eliminates obstacles to movement of goods across borders (e.g. simplification of customs procedures).
Transaction Value	-	Customs value of an imported good computed on the basis of the price actually paid or payable for it at the time it was exported.
Value of Non-Originating Materials	VNM	The that are acquired and used by the producer in the production of good; VNM does not include the value of a material that is self-produced.
Wholly Obtained	-	A good that contains no imported inputs and that has been wholly produced or obtained

Term	Acronym	Description
		within a country participating in a free trade area.

ANNEX: The ASEAN-China Free Trade Agreement

The complete *Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian Nations and the People's Republic of China* is available online at the following site:

<http://www.laotradeportal.gov.la/index.php?r=site/display&id=82>

APPENDIX: China-Lao Trade in Lao Leading Exports

A. TOP 35 LAO EXPORTS TO CHINA (Value and Volume)

Row Labels		Value (US dollars)					Quantity (Weight in kilograms)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
260300	Copper ores & concentrates	4,919,475	33,015,354	246,604,964	375,506,540	441,790,125	5,449,605	26,550,304	188,976,080	188,742,753	190,557,448
440399	Wood in the rough	21,709,666	16,868,026	20,669,403	64,800,696	165,993,516	-	-	-	78,590,767	133,318,848
740311	Cathodes of refined copper, unwrought	17,719,955	19,329,531	34,061,937	56,609,417	72,573,101	2,584,592	3,391,738	8,177,871	7,757,965	8,026,618
440799	Wood sawn/chipped lengthwise	8,992,537	23,313,852	10,914,758	26,821,649	54,820,989	-	23,595,645	8,944,039	45,050,612	57,298,506
400121	Natural rubber in smoked sheets	11,156,449	8,455,037	12,986,654	16,006,410	23,880,326	4,696,950	4,026,000	5,962,000	4,323,000	5,388,000
400122	Technically specific natural rubber (TSNR)	-	-	1,108,000	5,172,795	8,732,433	-	-	526,000	1,927,312	2,034,000
100590	Maize (corn)	2,079,889	4,013,312	8,094,274	9,083,288	8,304,524	16,265,502	19,624,334	39,244,112	41,994,160	35,167,579
121299	Locust beans&sugar cane	1,997,796	3,870,264	4,259,945	8,006,202	7,610,698	95,841,040	182,331,152	161,087,344	280,391,966	237,125,496
740200	Unrefined copper	-	-	2,096,204	4,845,877	4,457,651	-	-	455,097	902,236	666,081
740100	Copper mattes	-	-	573,368	3,494,295	4,120,486	-	-	207,481	964,146	1,093,602
440290	Wood charcoal	5,590	182,762	92,670	258,057	3,592,914	74,000	2,068,684	669,057	3,254,322	18,401,986
270210	Lignite not agglomerated	291,451	605,388	930,441	1,002,918	3,438,652	8,907,534	17,014,650	25,579,520	27,200,400	89,011,335
260900	Tin ores & concentrates	578,022	621,630	635,876	1,346,041	3,084,423	209,048	209,961	214,875	408,501	800,608
440349	Topical wood in the rough	953,966	951,600	956,827	2,074,965	2,720,041	1,277,752	1,134,415	1,098,527	4,778,932	5,081,624
100610	Rice in the husk (paddy/rough)	427,950	525,132	3,304,701	1,548,869	1,823,072	3,195,561	3,127,300	12,535,501	5,771,343	6,547,208
260700	Lead ores & concentrates	309,584	255,182	153,408	691,627	1,716,020	1,331,100	595,975	299,270	1,397,155	2,650,241
100890	Cereals	750,748	616,646	1,707,530	1,730,475	1,477,267	4,839,420	2,364,328	6,279,634	7,283,278	4,810,351
270111	Anthracite coal	30,855	238,148	592,674	1,587,231	1,356,046	1,000,000	7,000,000	16,200,000	43,094,240	33,966,280
130219	Vegetable saps & extracts	47,180	123,617	120,712	1,131,924	1,238,290	6,740	16,888	16,500	154,093	162,170
970400	Postage/revenue stamps	-	-	-	-	1,183,924	-	-	-	-	860
440729	Wood sawn/chipped lengthwise	546,214	2,294,826	859,788	1,282,600	1,108,105	-	1,773,015	565,653	4,922,365	6,143,447
120740	Sesamum seeds, whether/not broken	851,659	476,118	1,102,746	1,785,367	966,125	1,286,579	635,521	1,309,210	1,844,844	954,088
440320	Wood, in the rough, coniferous	673,501	115,917	81,588	737,311	790,138	-	832,206	-	850,938	925,077
330129	Essential oils other than those of citrus fruit	2,662,487	2,490,185	2,925,951	2,643,413	788,572	677,403	587,564	586,499	498,727	143,163
261710	Antimony ores & concentrates	315,907	446,086	752,338	795,854	604,250	1,024,000	936,500	1,362,051	1,253,868	574,493
260200	Manganese ores & concentrates	-	40,802	15,854	751,762	575,749	-	502,878	452,676	5,043,648	3,870,850
400129	Natural rubber other than latex	1,252,079	3,690,705	89,000	2,434,723	556,695	902,000	2,958,000	40,000	785,671	150,880
220300	Beer made from malt	-	-	224,460	107,395	529,080	-	-	204,797	94,377	469,543
060290	Live plants,mushroom spawn	48,240	-	-	-	522,664	14,624	-	-	-	4,512,841
940360	Wooden furniture	463,093	499,675	374,433	206,803	500,936	141,442	137,125	91,512	206,393	318,192
940169	Seats,with wooden frames, other than upholstered	194,280	260,990	122,787	239,891	483,924	45,020	60,295	23,907	138,518	283,251
121190	Plants & parts of plants, incl. seeds & fruits, of a kind	646,179	539,183	443,609	621,015	471,600	1,345,747	1,446,748	736,946	600,809	632,667
442010	Statuettes & other ornaments, of wood	26,850	51,527	57,834	93,017	343,747	17,058	26,951	10,560	61,542	291,870
440929	Wood continuously shaped along any of its edges	38,874	195,283	235,277	145,874	325,712	39,905	135,915	150,795	89,114	213,820
100620	Husked (brown) rice	229,460	382,491	1,825,737	438,700	323,557	1,200,000	1,189,620	4,513,580	1,068,250	914,400
080300	Bananas, incl. plantains, fresh/dried	9,938	46,937	182,447	114,682	301,820	150,000	299,000	1,036,591	701,474	1,418,980

B. CHINA IMPORTS FROM ALL COUNTRIES (Top 35 Lao Exports to China)

Row Labels		Value (US dollars)					Quantity (Weight in kilograms)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
260300	Copper ores & concentrates	8,832,772,026	9,930,443,877	8,478,683,710	13,025,094,514	15,338,994,191	4,524,695,708	5,187,022,967	6,132,346,265	6,466,115,913	6,383,259,859
440399	Wood in the rough	1,841,265,099	1,692,386,184	1,139,915,953	1,867,972,933	2,336,273,923	-	-	-	7,236,076,137	8,035,213,561
740311	Cathodes of refined copper, unwrought	10,291,542,440	9,804,319,487	15,580,922,233	21,779,482,807	24,815,971,416	1,477,003,777	1,434,034,016	3,160,314,199	2,904,075,092	2,823,226,318
440799	Wood sawn/chipped lengthwise	787,449,919	767,611,392	758,842,513	1,276,410,399	1,662,027,893	-	776,889,468	621,829,389	2,877,808,102	3,509,311,336
400121	Natural rubber in smoked sheets	446,865,730	647,650,585	419,236,919	693,884,202	1,013,764,633	216,730,413	244,552,536	231,357,190	217,084,171	214,108,675
400122	Technically specific natural rubber (TSNR)	2,412,434,911	3,142,972,756	1,954,674,973	4,333,787,412	7,442,201,024	1,148,369,474	1,141,313,174	1,144,298,637	1,353,188,698	1,588,373,974
100590	Maize (corn)	5,273,126	10,356,596	18,367,481	362,264,487	574,081,139	35,120,593	49,065,784	83,468,003	1,572,136,538	1,752,588,246
121299	Locust beans&sugar cane	15,295,315	20,380,607	24,161,421	37,570,455	41,900,615	380,268,747	530,120,774	611,284,921	705,600,269	688,176,777
740200	Unrefined copper	1,221,987,538	1,375,061,558	1,202,109,122	3,001,961,624	3,761,870,088	172,666,412	197,513,044	228,082,243	399,060,002	416,546,753
740100	Copper mattes	458,170,875	181,426,998	190,416,146	333,445,305	304,729,413	274,107,164	100,645,310	132,771,354	153,487,186	122,266,138
440290	Wood charcoal	9,911,145	14,658,364	17,540,915	22,985,483	44,844,045	75,002,880	136,254,176	156,676,612	175,757,241	188,695,134
270210	Lignite not agglomerated	25,871,543	217,407,552	331,342,897	1,262,431,789	2,998,021,659	585,717,210	3,284,846,047	6,047,663,880	20,042,716,710	40,179,383,392
260900	Tin ores & concentrates	27,634,919	33,120,098	37,089,601	97,603,411	113,037,598	20,692,347	7,156,462	10,206,874	19,840,852	28,790,748
440349	Topical wood in the rough	757,465,808	734,422,288	540,940,431	722,506,117	758,348,391	1,014,557,906	875,514,233	621,050,474	1,602,625,772	1,552,350,528
100610	Rice in the husk (paddy/rough)	778,223	1,450,042	3,305,390	2,162,891	3,194,210	4,494,788	6,075,713	12,535,525	8,301,424	9,477,388
260700	Lead ores & concentrates	1,663,121,877	1,573,352,453	1,736,652,671	2,512,915,600	3,017,866,828	1,265,296,466	1,441,767,543	1,604,828,606	1,602,894,498	1,443,327,307
100890	Cereals	1,071,208	635,467	1,715,136	1,746,476	1,518,067	5,027,953	2,471,986	6,302,864	7,328,079	4,863,539
270111	Anthracite coal	1,096,700,550	1,323,860,241	2,220,450,621	2,200,934,176	3,473,142,361	28,414,470,548	19,387,245,067	34,332,820,084	26,299,889,142	36,114,784,618
130219	Vegetable saps & extracts	13,015,100	17,812,578	17,899,744	22,416,716	23,926,402	1,649,006	1,684,466	956,271	1,671,974	1,386,327
970400	Postage/revenue stamps	1,165,793	5,704,734	4,661,487	4,573,508	6,644,916	2,173	6,025	5,223	15,402	8,825
440729	Wood sawn/chipped lengthwise	195,322,195	213,100,101	160,304,330	215,812,790	191,607,161	-	164,644,115	105,463,914	352,170,224	314,332,332
120740	Sesamum seeds, whether/not broken	168,883,297	249,374,972	387,610,199	503,959,563	519,145,496	194,460,992	214,187,095	311,270,640	390,708,208	389,291,097
440320	Wood, in the rough, coniferous	2,398,332,266	2,406,763,157	2,232,725,747	3,241,287,156	4,861,114,201	-	17,278,930,182	-	20,949,579,696	27,328,951,421
330129	Essential oils other than those of citrus fruit	26,477,699	33,911,376	21,795,476	30,133,319	36,989,677	2,440,185	2,156,317	1,388,249	1,629,740	1,445,104
261710	Antimony ores & concentrates	24,045,148	39,933,525	29,134,787	96,353,789	205,748,533	18,925,418	19,412,508	25,153,900	46,321,787	60,112,768
260200	Manganese ores & concentrates	1,300,322,163	3,466,739,796	1,772,831,675	2,807,453,370	2,678,146,867	6,631,929,011	7,567,901,616	9,617,615,076	11,578,206,164	12,971,878,134
400129	Natural rubber other than latex	66,318,495	91,526,345	60,369,238	112,374,098	116,995,341	42,710,545	49,360,842	34,867,582	39,718,333	27,950,166
220300	Beer made from malt	27,417,754	36,678,871	49,118,362	58,380,470	90,611,222	21,826,624	28,132,881	40,501,671	47,492,368	64,525,272
060290	Live plants,mushroom spawn	28,392,022	30,911,460	26,485,522	29,259,114	40,386,316	8,655,343	8,168,745	7,035,047	41,437,474	81,855,899
940360	Wooden furniture	79,643,892	126,646,765	116,918,008	149,854,578	217,490,800	24,325,578	34,755,536	28,574,806	55,782,022	81,885,304
940169	Seats,with wooden frames, other than upholstered	18,604,533	23,591,420	25,720,223	33,972,585	41,384,470	4,311,137	5,450,162	5,007,809	9,084,036	10,866,959
121190	Plants & parts of plants, incl. seeds & fruits, of a kind	29,149,465	33,664,187	30,558,632	54,778,630	64,489,278	19,098,968	27,903,594	26,560,911	37,681,977	45,012,837
442010	Statuettes & other ornaments, of wood	2,632,424	3,411,659	4,270,125	5,435,950	5,894,999	1,109,939	1,995,804	2,191,601	2,713,772	2,839,625
440929	Wood continuously shaped along any of its edges	19,411,798	16,987,879	15,004,700	17,991,222	28,325,475	11,438,251	9,972,262	6,880,496	9,302,733	12,750,612
100620	Husked (brown) rice	231,537	385,333	1,944,046	470,485	372,044	1,201,311	1,191,620	4,804,660	1,096,750	944,965
080300	Bananas, incl. plantains, fresh/dried	111,226,099	138,548,516	179,015,787	246,818,672	401,728,003	331,882,996	362,325,410	491,338,590	665,229,621	818,674,659

¹ The CLMV countries are Cambodia, Lao PDR, Myanmar and Vietnam. Import duties on 90 per cent of the products traded between ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Thailand and Singapore) and China were eliminated in January 2010.

² The *trade compatibility index* measures the similarity between Lao's exported products and products imported by China. The index approaches zero when Lao exports none of what the Chinese imports, and it approaches unity when the exports share of product *i* of Lao is identical to the import share of that product by the China. The index of compatibility is usually between 0.50 and 0.60 for trade between industrialized countries, and it averages about 0.20 for trade between developing countries.

³ The methodology was developed by the United Nations Economic Commission for Latin America (ECLAC) and applied to its Competitiveness Analysis of Nations (TradeCAN) software. Available: http://extop-workflow.worldbank.org/extop/ecommerce/catalog/product?context=drilldown&item_id=893378

⁴ The analysis is based on an Auto-Regressive Integrated Moving Average (ARIMA) model, using EViews software to estimate the equations for each product.

⁵ Volume data for imports of China's imports for the products were found to be unreliable at the HS 6-digit level needed to estimate structural equations.

⁶ Lao's small and medium-size exports are defined as those products whose average annual value of exports in the last five years (2007-2011) averaged between US\$1 million and US\$ 10 million. These product groups are defined at the 2-digit HS level.

⁷ Data from World Bank, "World Trade Indicators". Available: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,.contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html>.

⁸ Data from International Finance Corporation, "Doing Business". Available: www.doingbusiness.org.

⁹ "China, ASEAN should work to improve on FTA development: VP". English.news.cn, 21 September 2012. Available: http://news.xinhuanet.com/english/china/2012-09/21/c_131865030.htm.

¹⁰ For all other countries, Certificates of Origin are issued by the Lao National Chamber of Commerce.

¹¹ A recent analysis of the situation for Lao businesses is available from GIZ, "Enterprise Survey 2011". Vientiane, November 2012.

¹² For evidence on the importance of networks that provide aggregations of firms selling the same product in the same markets, see L. Stirbat, R. Record and K. Nghardsaysone, "Determinants of Export Survival in the Lao PDR". Washington, DC, World Bank, Policy Research Working Paper 6301, January 2013. Available: <http://go.worldbank.org/MD5GBV58V0>.